



CURRENCY

Committee on Financial Services

Michael G. Oxley, Chairman

For Immediate Release:

Contact: Peggy Peterson at 226-0471

**Wednesday, November 7,
2001**

House Financial Services Committee Passes Terrorism Insurance Legislation

Tonight, the House Financial Services Committee passed H.R. 3210, the Terrorism Risk Protection Act (TARPA) authored by Chairman Michael G. Oxley (OH) and Capital Markets Subcommittee Chairman Richard H. Baker (LA). The bipartisan bill, passed by a voice vote, provides for federal assistance for future terrorism damage, if it reaches certain levels, and for repayment to the taxpayers.

The purpose of the legislation is to head off economic disruption that could result from a lack of affordable, available terrorism insurance for businesses and commercial properties.

"We have passed a backstop, not a bailout," said Chairman Oxley. "By demanding that every dollar of American taxpayer assistance be repaid, we are providing a helping hand, not a hand-out."

The Terrorism Risk Protection Act is a pro-taxpayer, pro-consumer proposal, with a significant commercial industry/policyholder stake in terrorism claims. The bill features relatively little regulation, because the program would only kick in if a significant terrorism event occurs in the future.

"We don't want to subsidize commercial insurance coverage. However, the federal government can create a temporary industry risk-sharing program to assure the continued availability of commercial terrorism coverage," said Subcommittee Chairman Baker. "The bottom line is an attempt to limit immediate market disruption, encourage economic stabilization, protect the interests of taxpayers, and facilitate a transition to a viable market for private terrorism insurance coverage."

"This legislation is critical to ensure that our financial markets are not disrupted by the events of September 11 while protecting the taxpayers," said Rep. Ken Bentsen (TX), an original cosponsor of the bill.

Short-term, the bill would institute a federal, risk-sharing loan program for medium and large terrorism events, with the federal government responsible for 90 percent of the claims, thereby providing liquidity to the insurance industry at a difficult time. Insurance companies would be responsible for the remaining 10 percent of the claims. In the case of a medium-sized event (\$100 million to \$20 billion), all U.S. property and casualty companies would be assessed over time in order to pay back the assistance. In a large event (over \$20 billion in claims), all commercial policyholders would pay a terrorism surcharge over time.

Long-term, the bill would encourage insurance companies to set aside "rainy day" reserves by removing a tax penalty. The reserves would be limited and could only be used for future terrorism claims or in the case of company insolvency.

Amendments

An agreement between the majority and the minority resulted in four minor changes to the bill. They were included in an amendment offered by Baker and approved by a voice vote:

- Language indicating that the Secretary of the Treasury should be the administrator of the program was strengthened;
- In the payback provisions for large terrorism events, the surcharge to commercial policyholders was capped to three percent of premium costs per year;
- Once the industry savings (reserve) mechanism has begun, the Treasury Department will study the status and report back to Congress; and
- The Treasury Department will study the advisability of establishing a national insurance pool.

Other amendments approved by the Committee

- Chairman Oxley's amendment, in the nature of a substitute, was accepted by a voice vote. Among other things, it allows the program administrator flexibility in assessing or surcharging small businesses.
- Amendments offered by Reps. Christopher Cox (CA) and Bentsen clarify that insured parties will not be liable for non-economic or punitive damages resulting from terrorist attacks. The Bentsen amendment further stipulates that these limitations are not meant to impact lawsuits stemming from terrorist attacks where the damages being claimed are not covered under an insurance policy. The Bentsen amendment was approved by voice vote, the Cox amendment 26-21.
- A Rep. Donald A. Manzullo (IL) amendment was approved to clarify that terrorists are in no way protected from liability suits. It was approved by a voice vote.

- An amendment offered by Rep. Spencer Bachus (AL) and accepted by voice vote requires the Treasury Department to study the availability and affordability of railroad insurance for acts of terrorism.
- An amendment, offered by Rep. Gary L. Ackerman (NY), approved by voice vote, adds domestic U.S. air carriers and flagged ships to the property covered in the event of a terrorist attack.
- Rep. Melvin L. Watt (NC) offered an amendment to make frozen or seized terrorist assets available for court judgments. It was approved by voice vote.
- Another Bentsen amendment approved by voice vote requires the program administrator to report back to Congress each year it wishes to extend the program.
- An amendment offered by Rep. Michael E. Capuano (MA) calls on the program administrator to take into consideration the economic impact of any assessments or surcharges in urban areas that may be most vulnerable to terrorist attacks. It passed by voice vote.

Key Elements

- Risk-sharing plan modeled on existing state insurance programs
- All Federal taxpayer costs/assistance recouped
- 90% Federal risk-spreading with 10% company retention
- \$1 billion trigger level; lower trigger for smaller insurance companies
- First \$20 billion in losses assessed back to commercial insurers over time
- Subsequent losses recouped through commercial policyholder surcharges
- Uniform definition of terrorism
- Insurers able to keep long-term terrorism loss reserves without tax penalties
- Limited liability mitigation reforms included to protect taxpayer funds
- One-year program with optional extension for up to two additional years

Cosponsors

The bill was introduced on Nov. 1 by Chairman Oxley, Mr. Baker (LA), Mrs. Roukema (NJ), Mr. Bachus (AL), Mrs. Kelly (NY), Mr. Bentsen (TX), Mr. Royce (CA), Mr. Maloney (CT), Mr. Lucas (OK), Mr. Pomeroy (ND), Mr. Ney (OH), Mr. Barr (GA), Mr. Gillmor (OH), Mr. Weldon (FL), Mr. Ryun (KS), Mr. Riley (AL), Mr. Jones (NC), Mr. Ose (CA), Mrs. Biggert (IL), Mr. Green (WI), Mr. Shays (CT), Mr. Shadegg (AZ), Mr. Fossella (NY), Mr. Gary G. Miller (CA), Mr. Cantor (VA), Mr. Grucci (NY), Mr. Ferguson (NJ), Mr. Rogers (MI), Mr. Tiberi (OH), Mr. Foley (FL), and Mr. Issa (CA). Mr. LaTourette (OH) and Mr. Bereuter (NE) also joined as cosponsors.

###